There has been high expectation in the telecom industry ever since Mukesh Ambani-owned Reliance Industries Limited (RIL) acquired a majority stake in Infotel Broadband, which won pan-Indian broadband wireless access (BWA) licences in the 2010 auction. The expectation hinges on Mukesh Ambani's re-entry into the telecom space through Reliance Jio Infocomm. The Reliance Group's foray into the mobile segment in 2003 through Reliance Infocomm (now Reliance Communications [RCOM]) had challenged and practically transformed the country's telecom landscape through market-disruptive strategies and large-scale operations.

Reliance Infocomm was instrumental in introducing bundled offerings (phone and service) at less than Rs 500, which went on to revolutionise wireless growth in the country. The industry, analysts and users are now expecting a similar wave to sweep the broadband segment. However, the wait is getting longer as Reliance Jio is yet to roll out 4G services. Meanwhile, Bharti Airtel has stolen a march on it by launching 4G services in Kolkata, Bengaluru, Pune and Chandigarh. Though the uptake of services has not been impressive so far, Bharti undoubtedly has the first mover advantage.

Reliance Jio had initially planned a mid-2012 service launch after paying Rs 48 billion to acquire 95 per cent stake in Infotel Broadband and over Rs 128.48 billion to the government as spectrum fees. However, the launch was postponed to the end of the year and then again to June/July 2013. The ambitious project is expected to be rolled out in three phases starting with Delhi and Mumbai, followed by 69 cities by 2014 and over 800 cities by early 2015.

So far, 2013 has been a busy year for Reliance Jio Infocomm. Over the past two months, it has been on a deal signing spree with content developers, global vendors, infrastructure service providers, etc. The company has also been making arrangements for establishing submarine cable systems with international operators.

Strategy

To offer high speed 4G services in 800 cities, Reliance Jio will need to invest in robust infrastructure. Therefore, strong strategic partnerships are central to its business model.

In March 2013, Mukesh Ambani signed the first commercial agreement with his younger brother Anil Ambani since their dispute in 2005, which had led to the splitting up of the Reliance Group. As part of the division of businesses, Anil Ambani got ownership of RCOM – a mobile operator with a 120,000 km optic fibre cable (OFC) network in the country. As per the recent agreement, Reliance Jio will lease capacity on RCOM's intercity nationwide OFC network for a one-time payment of Rs 12 billion. RCOM will receive reciprocal access to the OFC infrastructure built by Reliance Jio.

According to analysts, the deal will provide additional benefits to Reliance Jio. RCOM's towers are among the few in the country that have an OFC backbone; most other infrastructure companies' towers communicate through microwave links. However, an OFC backbone is crucial to support high-bandwidth data traffic. Deploying this infrastructure would take time, especially in light of the huge right-of-way payments and multiple associated approvals. The deal, therefore, makes good business sense.

Recently, the company signed key submarine network deals to access international bandwidth. In April 2013, it tied up with Bharti Airtel to avail of bandwidth on the latter's i2i undersea cable between India and Singapore.

Reliance Jio has also formed a consortium with global operators like the Vodafone Group, Telekom Malaysia Berhad, Omantel, Etisalat and Dialog Axiata to lay a 100 Gbps OFC cable between the UAE and Singapore. The 8,000 km Bay of Bengal Gateway cable will link Malaysia and Singapore to the Middle East with connections to India and Sri Lanka. The cable system is likely to carry commercial traffic by end-2014.

Reliance Jio is partnering with several global vendors for the development of various network components – Samsung for radio access and packet core networks, Alcatel-Lucent for the metro and access segments and OFC technology, Infinera for long haul, Cisco for IP routers, IBM for billing and system integration, HP for data centre integration, and Ericsson for Wi-Fi. Himachal Futuristic Communications Limited (HFCL) will roll out the towers and OFC network.

Reliance Jio has also tied up with Samsung to retail 4G-enabled smartphones for $100, along with data plans starting at Rs 100 per month.

The company, which wants to establish its own platform for content and applications, has also been exploring the TV and cable space, where it has the opportunity to tap another 100 million screens. Its alliances – for applications with Extramarks Education and for content with Network18 – are steps in this direction.

Strengths

Reliance Jio has several inherent strengths. It has the strong financial backing of RIL. “The company has sizeable resources and in the past, it (the Reliance Group) has been a market changer with disruptive marketing strategies,” says Dr Mahesh Uppal, director, ComFirst.

Exclusive pan-Indian spectrum availability is another key advantage for Reliance Jio. In addition, with the Department of Telecommunications (DoT) opposing roaming agreements amongst operators without their paying a one-time fee, the company has a clear edge over its competitors. “In view of the recent issues surrounding spectrum sharing pacts between telecom operators, the pan-Indian spectrum held by Reliance Jio is a competitive strength. The support derived from being part of a strong group will also help the company in rolling out services faster, which will facilitate greater market penetration,” says Swati Agarwal, chief general manager and regional head, north, CARE Ratings.

Further, a key positive development for Reliance Jio has been the government’s decision to allow BWA licence holders to offer voice services by paying an additional Rs 16.8 billion. This means that Reliance Jio can now offer voice services along with high-end data applications without acquiring unified licences. “Voice services will provide significant support in market penetration. This will allow the company to offer a complete package to customers and enhance the device support for services offered by it,” says Agarwal.

Taking advantage of this, Reliance Jio is partnering with Russia-based voice-and-video-over-IP engine provider Spirit DSP to offer voice and video services on its long term evolution (LTE) networks. Recently, DoT assigned 10,000 connections to the company for testing 4G voice services. It has been allotted 4,000 numbers each in Delhi and Mumbai, and 2,000 in Jamnagar. During the testing phase, these 10,000 people can make and receive calls to and from existing mobile customers of various operators in these circles.

Challenges

With an aim to become India's largest telecom player within three years of service launch and to break even by the end of the third year of operations, analysts expect Reliance Jio to change the pecking order in the world's second largest telecom market.

However, there are some major roadblocks that need to be removed. According to Agarwal, the potential challenges are a weak device ecosystem, lack of backhaul network support and issues related to the low density of 4G networks. Moreover, the lack of quality vernacular content will limit data consumption. The already saturated urban voice market and the incumbents' underutilised 3G networks will also pose challenges.

Passive infrastructure sharing with existing players will help Reliance Jio in the short term, but pan-Indian service roll-out will require the establishment of new towers and cables, leading to huge capex requirements.

Analysts say that while the company may want to re-adopt the strategy of disruptive pricing, the scenario has changed significantly since. "Reliance Jio will have to offer services at a price point that will ensure stickiness. There has to be a strong reason for customers to move from one operator to another. Either the quality of service being offered has to be a big differentiator or the price of the service has to be attractive. Further, a few big "killer applications" may help in attracting customers. However, this may not be easy," notes Uppal.

In 2002, when Reliance Infocomm had entered the Indian telecom market to provide 2G services, mobile was a proven and mature technology worldwide. In comparison, LTE is a nascent technology globally. For example, the UK recently auctioned 4G spectrum.

Also, large global LTE network deployments have been for the frequency division duplex (FDD) variant and not for LTE-time division duplex (TDD), which is prevalent in India. Limited global experience in LTE-TDD would mean that the availability of devices that support the spectrum bands deployed in India will be limited. According to industry analysts, while the 3G market is taking time to achieve the expected growth levels, a similar scenario is likely in the LTE market and the related ecosystem development. They do not expect LTE-TDD to become globally viable before 2014, which means that these services would not become profitable for Reliance

Jio before 2015. The expected service launch in June/July 2013 will be facilitated through data cards/dongles and these applications would be later available on high-end handsets.

Moreover, Reliance Jio does not have a licence to offer voice services, but will provide internet telephony services. Most global operators are still undertaking trials for VoLTE FDD, which means that large-scale commercial VoLTE deployment over TDD is a distant reality.

Currently, operators with 2G/3G networks are considering the deployment of circuit switched fall back (CSFB) technology for offering voice services along with 4G. LTE networks will be used for data services while traditional circuit switched voice services will be offered through 2G/3G spectrum over the next few years. This means that whenever an LTE handset generates or receives a voice call, it gets automatically transferred to a 2G/3G network and once the call is completed, the device reverts to LTE. In the near term, CSFB will offer benefits such as immediate commercial availability and ease of deployment by reusing the existing core infrastructure. However, in the long run, operators will be required to shift their networks to VoLTE when they have adequate LTE coverage.

Meanwhile, GSM operators are ready to compete with companies like Reliance Jio. They have already opposed the government's move to allow BWA operators to offer voice services along with data. The Cellular Operators Association of India has accused the government of providing "undue benefits" to RIL by changing the rules and allowing BWA players to offer voice services, which account for over 85 per cent of telecom operators' revenues.

Another major challenge for Reliance Jio is positioning itself in the competitive landscape of the Indian BWA segment. It is not the only company that plans to launch 4G launch services this year. Aircel and Tikona Digital Networks have also firmed up plans and are aiming at a mid-year and end-year launch respectively. Another major development has been Videocon Telecommunications' plans to enter the BWA segment. The company did not win BWA spectrum in 2010, but can offer LTE services by virtue of its recent acquisition of liberalised spectrum.

Uppal believes that Reliance Jio's biggest challenge will be customer acquisition. Moreover, Reliance Jio is a pure IP-based company, which is undoubtedly its biggest strength, but this is also its biggest limitation because an average subscriber is not only looking forward to data usage but also to public switched telephone network-based traditional voice services.

Therefore, the company will have to build its business model around a differential pricing strategy and innovative applications. To make an impact, Reliance Jio will need to offer applications that attract the mass market.

Where does it stand

Despite the roadblocks, Reliance Jio will try to make a big entry into the broadband space. The company has earmarked over $10 billion for establishing broadband infrastructure over the next few years. Of this, it plans to spend $6 billion in the next three years to launch and stabilise operations.

Moreover, Reliance Jio is reportedly in talks for selling 25 per cent stake to US-based AT&T for $3.5 billion. This would value the company at $14 billion, 60 per cent higher than the combined market cap of Idea Cellular ($6.14 billion) and RCOM ($2.4 billion) or 63 per cent of Bharti Airtel's market cap of $22 billion, even before service launch.

Currently, the company is preparing for 4G service launch in the top 40 cities. It would set up over 100,000 telecom towers on its own, moving away from its previous asset-light strategy. The low-emission towers will look different from the existing ones with inbuilt equipment.

Reliance Jio is currently seeking permission to install towers across Navi Mumbai. It has proposed to install high-mast towers, which will serve as base stations for the cellular network and provide street lighting. The company plans to install 126 such towers initially. Reliance Jio is also in talks with the Municipal Corporation of Greater Mumbai for setting up about 8,000 4G towers in the city.

Net, net, with an approach aimed at attracting a large number of users, strong prospects for long-term growth in high speed wireless usage, and a monopoly position, the company may be able to avoid some of the issues impacting other wireless businesses. However, it will be interesting to see the way the year unfolds for the company. LTE, with its ability to provide high data speeds (almost 10 times faster than 3G), can provide a major fillip to the mobile broadband segment and Reliance Jio, with its pan-Indian BWA spectrum, is better placed to reach out to a

wider audience than its peers. The company's 4G launch is expected to usher in a new broadband era in the Indian telecom sector.

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